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Explaining foreign firms' approaches to corporate political activity in emerging economies: The effects of resource criticality, product diversification, inter-subsidiary integration, and business ties

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ABSTRACT

Despite the increasing scope for transactional approaches to corporate political activity (CPA) in emerging markets and rising concerns about the use of relational approaches, foreign firms in emerging economies appear to be reluctant to adopt transactional approaches to CPA. Using Resource Dependence theory we argue that criticality of resources, product diversification, integration with other foreign subsidiaries, and business ties may explain why foreign firms adopt a transactional or a relational approach to CPA. We test our hypotheses using a sample of 105 subsidiaries of foreign firms in India. We find that unrelated diversification and close integration with other subsidiaries of their parent firm makes subsidiaries more likely to adopt a transactional approach, whereas local resource criticality and ties to local businesses makes subsidiaries less likely to use a transactional approach to CPA. Our findings enhance our understanding of the factors that determine foreign firms' choice of approaches to CPA in emerging economies.

Introduction

Multinational Enterprises (MNEs) operating in emerging economies are likely to be exposed to greater, more complex and less predictable influences of the political environment on their operations when compared to MNEs operating in developed economies, given the institutional voids characterising emerging economies (Luo, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008). Because of this, MNEs are faced with a greater need to proactively engage and interact with a variety of non-market actors such as regulatory agencies, politicians, non-governmental institutions and other organisations in order to influence policymaking (Gao, 2006; Shaffer & Hillman, 2000). This interaction in order to influence government policy is commonly referred to as 'corporate political activity' (CPA) (Getz, 2001; Hillman & Hitt, 1999; Schuler, 1996). Such CPA is geared not only towards reducing the negative impact of uncertain environments on the firm, but also to influence and shape government policy in a way that is conducive to the firm's business objectives, e.g. providing exclusive licenses, and obtaining influence rents (Ahuja & Yayavaram, 2011).

A central decision for firms to take in this context is about the general approach to CPA (Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004). On the one hand, firms may choose to interact with government policymakers or regulatory agencies only when specific issues arise. This one-off issue-based approach to CPA is referred to as a *transactional* approach (Hillman & Hitt, 1999). Firms following a transactional approach engage only in a short-term exchange with policymakers when particular issues arise, for example, when faced with the prospect of new regulation that is detrimental to their operations. On the other hand, firms may interact with government officials on a regular basis by developing personal relationships with policymakers over time, so that when issues arise, the contacts necessary to affect these issues are already in place. This alternative approach to CPA has been referred to as *relational* approach (Hillman & Hitt, 1999)

The distinction between transactional and relational approaches has been used in a large number of studies on CPA (e.g. Hillman, 2003; Hillman & Hitt, 1999; Hillman & Wan, 2005; Kozhikode & Li, 2012; Schuler, Rehbein, & Cramer, 2002; Sun, Mellahi, & Wright, 2012). The choice between the two approaches to CPA is important because it affects the subsequent decisions of firms; such as adoption of CPA *individually* or as part of a *collective*; and choice of

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particular strategies, i.e. *information-based*, *financial incentive* or *constituency building* strategy (Hillman & Hitt, 1999; Hillman et al., 2004). The choice of approach is thus an important decision in shaping the overall political behaviour of firms. As various studies have shown, the choice of CPA approach also influences firm performance (Niessen & Ruenzi, 2010; Sheng, Zhou, & Li, 2011). The distinction between transactional and relational CPA in the context of emerging economies has also been supported in Luo's (2001, 2006) studies on business-government relations in China. Luo (2001, 2006) found that while some MNEs interact with the government in an arms-length transaction-type fashion, others use long-term cooperative approaches. Although previous empirical research (Hillman, 2003; Hillman & Wan, 2005) has assumed that either the transactional or the relational approach will dominate a firm's CPA it is important to account for the possibility that, as firms change their CPA approach over time, both approaches may be equally important at certain points in time[1].

Despite the existence of both transactional and relational approach to CPA, studies have emphasised that unlike in developed countries, foreign firms' CPAs in emerging economies are predominantly based on the relational approach. While in developed countries, official mechanisms, such as, for instance, political action committees (in the U.S.) provide corporations with legitimate ways to support particular politicians and parties during election cycles in a transactional fashion (Grier, Munger, & Roberts, 1994), the absence of such legitimate mechanisms for business-government interaction have caused the relational approach to become the dominant means for firms to influence policy-making in emerging economies (Ahuja & Yayavaram, 2011). In addition to the lack of such official and legitimate mechanisms, scholars have also emphasised upon the comparatively greater dependency of foreign firms in emerging economies on local resources such as local knowledge, networks and reputation (Luo, 2001; Meyer et al., 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005). Research has, for instance, investigated the role of creating and managing *ties* to political decision-makers (Li, Poppo, & Zhou, 2008a; Li, Zhou, & Shao, 2008b; Sheng et al., 2011) or the creation and exploitation of family or other social networks (Dieleman & Boddewyn, 2012). Yet, we suggest that developments in the institutions in many emerging economies over the past decade, including improved business-government information exchange mechanisms provide firms with greater scope to use transactional, rather than the traditionally dominant relational approach to CPA. While there is still heterogeneity in this regard across emerging economies, emerging economies share a common trend towards better institutions (e.g. Ahuja & Yayavaram, 2011; Luo, 2001; Peng & Luo, 2000). Scholars have therefore begun to examine wider typologies of political strategies, such as those provided by Hillman and Hitt (1999), to analyse the CPA of foreign firms operating in emerging economies (Holtbrügge, Berg, & Puck, 2007; Puck, Rogers, & Mohr, 2013). We suggest that India is a good example of the institutional changes that have taken place in emerging economies and thus provides a good setting for investigating foreign firms' CPA approach. For instance, business associations such as the Federation of Indian Chamber of Commerce and Industry and institutions such as the Reserve Bank of India (RBI) have become platforms on which businesses and the government can discuss specific issues in a transactional fashion, rather than developing on-going relationships with such regulators (Kozhikode & Li, 2012).

In addition to the opportunity provided by the development of institutions, recent research has highlighted that the use of a relational approach to CPA can pose a risk to firms' reputation (Wright et al., 2005). In several recent instances, favourable outcomes of using the relational approach in emerging economies have found to have been reversed. For instance in Indonesia, connections to the Suharto regime established through the adoption of a relational approach became a liability for firms in the post-Suharto era (Dieleman & Boddewyn, 2012; Fisman, 2001). Similarly, studies in China have shown that the value accrued from political connections developed by foreign firms through the use of a relational approach may not always be positive in the long term (Li et al., 2008a,b). In general, the exploitation of family and political connections associated with the use of the relational approach in emerging economies has also thus often been associated with improper behaviour, such as, corruption (Lawton, McGuire, & Rajwani, 2013). We thus suggest that there are strong incentives for foreign firms to adopt a transactional approach to CPA in emerging economies.

Yet, despite these possible downsides associated with the relational approach, recent research shows that the relational approach to CPA remains important for foreign firms operating in emerging economies (Dong, Li, & Tse, 2013). For example, Sun et al. (2012) have highlighted the importance of *guanxi* networks in China, and Sawant (2012) has underlined the importance of building long-term relationships with government officials in India. In this study, we aim to resolve this paradox by investigating the factors that affect the likelihood of firms using a transactional instead of a relational approach to their CPA in emerging economies. Explaining the choice between these two approaches remains of great importance to investors as well as policy-makers in emerging economies due to the dynamic nature of the political environment and because of the effect of firms' choice of approach to CPA on their performance (e.g. Luo, 2001; Niessen & Ruenzi, 2010; Okhmatovskiy, 2010). We do so by drawing on resource dependence theory to highlight the effects of resource criticality, product diversification, inter-subsidiary integration and business ties on firms' choice of CPA approach.

The remainder of the paper is structured as follows: In the next section we provide a brief review of the various theoretical frameworks that have been used to explain firms' choice of CPA approach and argue for the particular suitability of resource dependence theory in our study. We then build on resource dependence theory to develop our hypotheses on the effects of resource criticality, diversification, inter-subsidiary integration and business ties on foreign firms' choice of CPA approach. The subsequent sections explain the research context, empirical basis and measures used in our study before presenting the findings. We then discuss our findings and conclude the paper by highlighting the paper's contributions to research and practice and indicating some worthwhile areas for future research.

Theoretical explanations of firms' approaches to CPA

The majority of prior theory-based explanations of the determinants of a firm's choice of approach to CPA have been grounded in the resource-based view, institutional theory and the resource dependence theories. Studies using the *resource-based view* (RBV) have emphasised on the potential effects of firm-level factors, such as, for instance, financial resources or experience on firms' choice of CPA approach. Scholars working on the basis of the RBV have emphasised that good relationships with the government provide firms with 'political capital' that can be a source of competitive advantage, for example, by raising costs to rivals (McWilliams, Fleet, & Cory, 2002) or reducing firms' exposure to risk (Puck et al., 2013). Yet, much of the empirical evidence in this area comes from a domestic environment and various authors have suggested that firms may be unable to leverage their resources and

[1] We would like to thank one of the anonymous reviewers for highlighting this possibility. We account for both of these possibilities through alternative measures of firms' CPA approach.

competencies in the political environment across national boundaries (Ozer & Alakent, 2013; Schuler et al., 2002).

Research drawing on *institutional theory* has highlighted the need to account for the characteristics of the institutional environment in different countries, for example, the level of corporatism, when explaining firms' choice of CPA approach in an international context (Hillman, 2003; Hillman & Wan, 2005). In emerging economies, 'institutional voids' associated with a general inefficiency of legal enforcement, lack of government support to some industries (Sheng et al., 2011) and levels of regulatory complexity (Mondejar & Zhao, 2013) have been regarded as important drivers of relational approach to CPA. In addition to specific institutional characteristics, scholars have also suggested that differences in the regulatory environments between firms' home and host country are likely to affect decisions regarding the extent to which foreign firms develop relationships with host-government officials and pursue a relational approach to CPA (Mondejar & Zhao, 2013). Several scholars have suggested that relational linkages to public institutions such as government departments and regulatory agencies reduces foreign firms' liabilities of foreignness and increases their legitimacy (Baum & Oliver, 1991).

Finally, the *resource dependence theory* (RDT) has emerged as one of the key theories to explain firms' political activities in an international context (Boddewyn & Brewer, 1994; Meznar & Nigh, 1995; Oliver & Holzinger, 2008) and firms' choice of CPA approach in particular (Hillman & Hitt, 1999; Hillman et al., 2004). RDT suggests that in order to survive organisations depend on access to resources held by external actors and that the constraints associated with this external dependence can be absorbed through different mechanisms, including CPA. Scholars have suggested that firms with greater dependence on government goodwill, access to state-controlled resources, or supportive regulation are most likely to be politically active (Boddewyn & Brewer, 1994; Meznar & Nigh, 1995; Oliver & Holzinger, 2008). In contrast, firms that are less dependent on such resources are expected to be more reactive in their CPA and to limit their activities to complying with existing regulation and locally accepted standards to absorb external constraints. Research has suggested that while the former group of firms would thus be likely to employ a relational approach, the latter group would be more likely to adopt a transactional approach (Hillman & Hitt, 1999; Hillman et al., 2004). This relation between dependence and choice of approach to CPA has also been borne out by empirical studies (Grier et al., 1994; Sadrieh & Annavarjula, 2005).

Due to its general assumption that organisations depend on resources held by external actors (Kotter, 1979; Pfeffer & Salancik, 1978), we suggest that RDT allows to account for both the firm-level as well as the institution-level factors in as far as the effects of both of these are "transmitted" to the organisation via the level of its external dependence. In other words, both the characteristics of a firm's resources as well as the (foreign) institutional environment in which it attempts to employ these resources will affect the magnitude and nature of its external dependence and thus its choice of CPA approach. We therefore suggest that RDT is particularly suited to explain CPA approach chosen by firms in their overseas markets.

Hypotheses

Resource dependence theory (RDT) provides a rationale for studying the political behaviour of firms both within domestic and international settings (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 2003). From a RDT perspective, different approaches to CPA constitute distinct means to absorb the external constraints associated with firms' dependence on resources held by external actors. Firms' approach to CPA will thus depend on the contribution of different CPA approaches to absorb these constraints and on the nature of resource dependence underlying these constraints. Based on this logic we expect the contribution of different CPA approaches to absorb firms' external constraints and thus firms' choice of CPA approach to be affected by the criticality of local resources, the level of firm's product diversification, their integration with other foreign subsidiaries and their local business ties. We suggest that by using RDT to explain the effects of these four factors on firms' approaches to engage with political actors in emerging economies, we contribute to explaining foreign firms' preference for the relational approach to CPA in emerging economies despite the increasing scope for the alternative, transactional approach and despite the potentially negative effects on their reputation.

Resource criticality and foreign firms' approach to CPA

The criticality of resources is a key element of RDT that we expect to play a central role in determining firms' choice of approach to CPA. A resource is highly critical if the firm's survival depends on access to the resource, i.e. there are no substitutes and no alternative ways to procure the resource (e.g., Malatesta & Smith, 2011). According to Pfeffer and Salancik (2003), if a resource is critical for survival, uncertainty over continued access to the resource will be more likely to be managed through use of power gained through a continued interaction that fosters personal relationships with political actors. The criticality of external resources is thus an important determinant of firms' choice of approach to CPA. In particular, we suggest that the constraints regarding access to critical resources can be better absorbed through the adoption of a relational approach to CPA. This is due to a number of reasons.

First, RDT emphasises that the government is one of the most powerful actors in the external environment and is a major source of both threat and opportunity to firms. Although not limited to emerging economies, the government in emerging economies tends to play a comparatively greater role in domestic economic activity when compared to the governments in developed countries. Institutional voids in combination with flexible and often shifting government intervention provide (foreign) firms with room 'create' their environment through CPA (see, for example, Dieleman & Boddewyn, 2012; You & Du, 2012). Yet, research on MNE-host government relations has stressed that dependence on local resources reduces MNEs' power vis-à-vis the host government and makes MNEs more likely to align their strategies with the interests of host governments (Meznar & Nigh, 1995). At higher levels of external resource dependency foreign firms in emerging economies will therefore be more likely to absorb the constraints associated with uncertainty of access to these resources by dealing with the government in a relational fashion (Sun, Mellahi, & Thun, 2010; Sun et al., 2012).

Second, foreign firms depend on access to new markets, skilled/unskilled labour at low cost and natural resources that are frequently controlled by the government and its regulatory agencies in emerging economies (Meyer et al., 2009; Peng et al., 2008). At the same time, foreign firms' resources such as modern technology and innovative management styles are also critical for emerging economies to further their local economic and human development. Such mutual dependence increases the scope of interactions between MNEs' subsidiaries and political actors controlling important resources, resulting in greater cohesiveness between the two parties (Gulati & Sytch, 2007). Due to the comparatively shorter timeframe and fewer resources involved in the use of a transactional approach to CPA, this approach is less likely to allow foreign firms and non-market actors (including the government) to identify areas of resource complementarity and to cooperate with each other in those areas, when compared to the relational approach (Luo, 2001). In contrast, the relational approach enables foreign firms to acquire detailed information through on-going interactions and information exchanges over a variety of issues. A transactional approach may thus be less suited to absorb the external constraints associated with high levels of resource dependence.

Third, a relational approach allows foreign firms to develop relationships characterised by trust and reciprocity, which is highly important when resources are critical and not available from alternative sources of supply (Wicks, Berman, & Jones, 1999). If foreign firms' technological expertise is important to an emerging economy and the emerging economy's resources are important to the foreign firm, a high level of trust can allow both parties to reduce uncertainty of long term access to these resources and allow firms to gain advantage over its rivals. Such a high level of trust cannot be developed if firms' managers approach government officials only when issues arise, because such a transaction driven approach would portray opportunistic behaviour, and reduce the level of trust between parties (Mayer, Davis, & Schoorman, 1995). Rather, a relational approach enables foreign firms' managers to engage in complex tasks and cooperate without explicit short-term interests (Wicks et al., 1999). A relational approach to CPA thus allows foreign firms to deeply embed themselves in social and relational exchanges with local non-market actors, such as non-governmental organisations and officials in regulatory agencies and other government offices (Sun et al., 2010) and to develop the level of trust required to absorb the constraints associated with accessing locally held resources[2]. Based on these arguments we formulate the following hypothesis:

Hypothesis 1. The likelihood of foreign firms adopting a transactional approach to CPA (as compared to a relational approach) in emerging economies decreases with the level to which local resources are critical for their subsidiaries.

Product diversification and foreign firms' approach to CPA

According to RDT, firms may spread and thus dilute their dependence on the resources held by actors in its environment through product diversification (Kotter, 1979; Pfeffer & Salancik, 1978). Prior research has suggested that product diversification affects firms' choice of approach to CPA (Hillman & Hitt, 1999; Hillman et al., 2004). We follow this logic and suggest that foreign firms' unrelated diversification within a host country, in particular, buffers a firm's operations in the host country from the constraints exercised over critical resources by other actors in the firm's local environment, and increases a firm's incentive to use a transactional approach to CPA for the following reasons.

Foreign firms specialised in producing or offering related products or services within the host country depend on a more confined set of critical resources (Stimpert & Duhaime, 1997). Although such specialisation allows foreign firms to benefit from economies of scale in emerging economies (e.g., Luo, 2006) we expect these subsidiaries to rely to a greater extent on political actors within the host country when compared to diversified subsidiaries. This is because the dependence on a narrow set of resources required to produce similar products makes it easier for political actors to control and restrict subsidiaries' access to these resources increasing their dependence on support from political actors. Baum and Oliver (1991) argued that specialised firms often have limited slack resources and are therefore more dependent on institutional linkages and the resulting benefits (protection, subsidies etc.) for absorbing external constraints. At the same time, the number of policy issues affecting such specialised (or less diversified) firms will be lower, allowing these firms to focus their CPA on the specific political actors who make decisions on relevant policies. We thus suggest that foreign subsidiaries that are focused on related products will have greater incentives and will be more inclined to engage in deeper relational exchanges with specific political actors and will thus be less likely use a transactional approach to CPA[3].

We suggest that compared to specialised subsidiaries, subsidiaries with unrelated diversification will be less interested in developing specialised knowledge on particular policy issues and thus less likely to develop on-going relationships with political actors. This is because with greater unrelated product diversification, subsidiaries also diversify the resources and external actors they depend on for producing and/or offering these products (Stimpert & Duhaime, 1997). This will reduce subsidiaries' vulnerabilities regarding uncertainty of access to specific resources and therefore the need to develop on-going relationship with political actors controlling the use of these resources (Baum & Oliver, 1991). Although at a global level, certain business units within a diversified firm may depend on specific resources more critically than other units, we argue that subsidiaries whose products and/or services are diversified within a single host country will have to deal with a variety of external actors. Using a relational approach under these conditions will increase the costs and complexities associated with CPA (Bercovitz & Mitchell, 2007). Therefore, we suggest that diversified foreign firms are more likely to contact political actors only when particular issues arise, i.e. adopt a transactional approach to CPA. Accordingly, we formulate the following hypothesis:

Hypothesis 2. The likelihood of foreign firms adopting a transactional approach to CPA (as compared to the relational) in emerging economies will increase with their level of unrelated product diversification within the host country.

Inter-subsidiary integration and foreign firms' approach to CPA

Research has argued that MNEs' CPA also depends on the way in which MNEs manage their network of international operations (Blumentritt & Nigh, 2002). From a RDT perspective, subsidiaries might be able to reduce their dependence on local resources and/or absorb the associated constraints by drawing on resources held at other subsidiaries of its parent firm (O'Donnell, 2000). Thus, foreign subsidiaries' level of inter-subsidiary integration should have an effect on foreign firms' approach to CPA in emerging economies. In particular, we suggest that a greater degree of inter-subsidiary integration, defined as the degree to

[2] For example, when the Indian government was promoting locally manufactured low-cost and fuel efficient cars in the 1980s, Suzuki realised that it was crucial to build a trust-based relationship with the Indian government while sharing its valuable knowledge with Indian suppliers of related components. In order to absorb external constraints, Suzuki thus adopted a relational approach for more than six years with the Indian government culminating in the establishment of a long-term collaborative agreement with government-owned Maruti Udyog Limited (Nayak, 2005).

[3] For instance, Coca-Cola is critically dependent on access to ground water in its local environments and thus affected by any regulation that restricts the water use by MNEs (Taylor, 2000). Such a case occurred in 2004 when local officials required the closure of one of Coca-Cola's bottling plants because it would reduce the quantity of water available to local farmers. Although the High Court of Kerala state overturned the decision of local officials (Hills & Welford, 2005), in due course, Coca-Cola seems to have adopted a relational approach to CPA in India, reflected in its establishment of the 'Coca-Cola India Foundation' in 2006 that employs ex-regulatory officials in advisory positions (Coca-Cola, 2012) in order to manage on-going issues over its access to ground-water in India.

which activities/outcomes of a foreign subsidiary are influenced by other subsidiaries or its headquarters based in a different country (O'Donnell, 2000) reduces both the dependence on local resources and the need to absorb external constraints, thus giving more room for a transactional approach to CPA. This is due to a number of reasons.

In general, organisational research anchored in RDT has suggested that uncertainty over access to critical resources is reduced when there are alternative sources of supply that can provide the resources necessary to an organisation's survival (Casciaro & Piskorski, 2005; Malatesta & Smith, 2011). Greater inter-subsidiary integration allows firms' subsidiaries based in different countries to exchange critical resources that are constrained by specific regulation in one country. Yet higher levels of integration also lead to a greater need for integrating CPA across the MNE's network to avoid adverse effects of local issues on the MNE as a whole (Hillman & Wan, 2005). In this situation the transactional approach to CPA has been argued to be more suitable because it allows greater flexibility to deal with issues as and when they manifest across the MNE's network (Hillman & Wan, 2005). Firms with greater international subsidiary integration are thus more likely to contact policymakers as issues arise, i.e. they chose a transactional approach, rather than a relational approach in each individual country they operate in[4].

Furthermore, subsidiaries that are integrated more closely within the MNE's network of international operations are more likely to be characterised by greater ethnocentricity of organisational values and norms (O'Donnell, 2000). External control mechanisms involving on-going and deeper relationships with political actors are likely to affect the identity of the firm (as a whole) and are therefore undesirable at higher levels of international subsidiary integration. In emerging economies, ties with political actors are often associated with unethical activities such as bribing, hiring unqualified professionals onto certain management positions (Li et al., 2008b), and exploiting family connections (Dieleman & Boddewyn, 2012). Using a relational approach to CPA may thus have adverse effects on foreign firms' values and norms, and is therefore less desirable in situations of high global integration of MNE activities. Given this risk that a subsidiary's on-going relationship building activities with political actors in one country may affect the operations of other subsidiaries and cause harm to the firm's overall values and reputation, it is more likely that internationally interdependent foreign subsidiaries in emerging economies will interact with political actors only when particular issues arise. Accordingly, we formulate the following hypothesis:

Hypothesis 3. The likelihood of foreign firms adopting a transactional approach to CPA (as compared to the relational) in emerging economies will increase with the level of inter-subsidiary integration.

Business ties and foreign firms' approach to CPA

A particularly important mechanism to manage external dependence in emerging economies has been the establishment of informal managerial linkages across organisations (Li et al., 2008a,b; Sheng et al., 2011; You & Du, 2012). Foreign firms' ties with local businesses in emerging markets are important not only to overcome the 'institutional void' (Khanna, Palepu, & Sinha, 2005), but also to gather product or service related information that may not be available reliably in the open market (Sheng et al., 2011). We suggest that the existence of strong ties to local businesses will affect a firms' level of dependence on the government and thus also foreign firms' choice of approach to CPA. Based on RDT in general, one could expect that that the dependence on critical resources available from the environment can be reduced by business ties (Kotter, 1979) leading to a reduction in the need to interact with the government on a regular basis, thus making a transactional approach more likely. Yet, in contrast to this logic, we suggest that in the particular context of emerging economies, foreign firms' business ties make them more likely to adopt a relational approach with regard to their interaction with political decision-makers.

First, we suggest that in an emerging economy context, business ties are imperfect substitutes for ties to political decision-makers given the comparatively greater role played by the government and regulatory agencies in these economies in controlling access to (critical) resources. Notwithstanding the potentially useful resources that firms might access through ties to local businesses, the ultimate power over the allocation of many important resources, such as, for example, licenses and permits, ultimately rests with political decision-makers. Similarly, research suggests that in emerging economies public policy is often decided on by closed policy networks consisting of deep and recurrent relationships between a small number of local private firms and political decision makers (Rizopoulos & Sergakis, 2010). We therefore suggest that unless business ties exist to these selected few local firms, direct government contacts will be more conducive for foreign firms' attempts to manage their external dependence.

Second, several studies have highlighted the role of knowledge associated with developing effective business networks as a key resource to the firm (Scarbrough, 1998; Tsai & Ghoshal, 1998). Based on the notion of path-dependence (Pierson, 2000), we suggest that the experiential knowledge gained from managing external dependence by socially integrating with other related businesses will become an important part of the firms' overall absorptive capacity and will increase the likelihood that foreign firms manage their external relationships with political actors in a similar way, thus making them less likely to adopt a transactional approach to CPA. Conversely, foreign firms that have few ties with local businesses may lack the knowledge and/or confidence in establishing and managing on-going relationships with the government. Such firms are therefore more likely to contact political actors only when particular issues arise that may affect their business adversely, i.e. such firms are more likely to adopt a transactional approach to CPA. Based on this discussion, we formulate the following hypothesis:

Hypothesis 4. The likelihood of foreign firms adopting a transactional approach to CPA (as compared to the relational) in emerging economies decreases with the extent of their ties to local businesses.

Methodology

Research context and sample

We chose India as the setting for our research because the institutional developments that we have argued to increase the scope for foreign firms to engage in transactional approaches have progressed further in India when compared to other large emerging economies such as China or Russia (Schwab, 2012).

[4] For instance, despite government incentives favouring foreign automobile companies to manufacture locally in India, Toyota heavily relies on its integrated supply networks in countries across Asia. This has enabled the firm to contain the negative impact of product recalls on its survival in India (Economic-Times, 2011). While Toyota still contacted relevant officials in India, these contacts were not part of an on-going relationship that Toyota had created with the Indian government, reflecting a transactional approach to CPA.

Yet, although India attracts high levels of FDI, many resources critical to foreign subsidiaries' survival remain under government control (WIR, 2012). India thus provides a very good setting to investigate our hypotheses as we expect a high level of variability with regard to both foreign firms' use of transactional vs. relational approaches to political activity as well as the factors that we argued to affect foreign firms' choice of approach to CPA.

Data was collected through a web-based questionnaire survey of the top managers (CEOs, Managing Directors or Country Managers) of foreign subsidiaries operating in India. We obtained the "India MNC Directory 2011–12" from *Amelia Publications* which provided contacts of such top managers of over 3000 firms. The directory included contacts of both (1) partly or wholly foreign owned companies in India, and (2) Indian firms that have overseas operations. The foreign-owned companies were headquartered in nine countries (USA, UK, Australia, Germany, Netherlands, Italy, Malaysia, Sweden and Switzerland). We decided to exclude subsidiaries in which the foreign partner held less than 25% of the equity. Although this is higher than the commonly used 5%-level used in extant research to classify foreign subsidiaries, we wanted to exclude subsidiaries in which foreign partners were only 'sleeping partners' and were thus unlikely to be interested in CPA (Delios & Beamish, 2001). We also excluded subsidiaries with incomplete contact details. This left us with a list of 1910 foreign firms, each of which, in 2011 received a link to our web-based questionnaire via email. A very large number (900) of emails could not be delivered and 'bounced' indicating that only 1010 emails were successfully delivered. After email and telephone follow-ups over a three-month period, 120 responses were obtained. We excluded fifteen responses due to missing data, resulting in 105 usable responses (10.24%). This is similar to the response rate reported in prior research on political strategies (Keillor & Hult, 2004; Puck et al., 2013). Due to the sensitivity of questions asked, surveys on firms' political strategies usually achieve low response rate. In addition, the survey was carried out at a time when the Anna Hazare-led anti-corruption movement had gained momentum in India (Sengupta, 2012), and this may have further reduced firms' willingness to provide information on their political strategies. Table 1 shows the distribution of the MNEs in our sample by home-country.

Measures

In order to measure firms' *approach* to political activity as our *dependent variable* we used four items (see appendix) suggested by Hillman (2003) and Hillman and Wan (2005). These were measured on five-point Likert-type scales. We used alternative ways to measure firms' choice of approach to CPA. For a first measure we followed the method suggested by Hillman (2003) and Hillman and Wan (2005) and created a dummy variable reflecting firms' *dominant* approach to CPA. To do so, we calculated the averages of the items relating to transactional and relational, respectively. This first variable took the value 1 if the average of the two items reflecting the firms' use of a *transactional* approach was higher than the average of the two items reflecting firms' use of a *relational* approach, and if this difference between averages was 2 or higher (Hillman, 2003; Hillman & Wan, 2005). This variable thus reflects whether a firm *predominantly* uses either a transactional or a relational approach (transactional = 1; relational = 0). All firms clearly fell into one of the two categories. The following Table 2 shows the allocation of the 105 firms in our sample to the two different approaches as well as the averages of transactional and relational approaches of these firms, respectively.

Table 1
Home country representation of firms.

Firms' home country	Firms	Percentage of total firms
Australia	3	2.86
Germany	24	22.86
Netherlands	4	3.81
Italy	8	7.62
Malaysia	4	3.81
Sweden	4	3.81
Switzerland	6	5.71
United Kingdom	8	7.62
United States of America	31	29.52
Unknown	13	12.38
Total sample	105	100

Table 2
CPA approaches of firms in our sample.

Type of CPA approach	Number of firms	Average level of transactional approach	Average level of relational approach
Transactional	57	3.83	1.67
Relational	48	2.5	4.5

Fifty-seven of the firms in our sample followed a transactional approach to CPA, while forty-eight firms were following a relational approach to CPA in India. Although Hillman's (2003) and Hillman and Wan's (2005) way of classifying firms' approach to CPA leads to a dichotomous variable, firms that are classified as following a transactional approach may (to a lower extent) also follow a relational approach. Table 2 shows that even for firms with a predominantly relational approach there was evidence for elements of a transactional approach, and vice versa. The use of a dichotomous variable may thus be somewhat crude as it does not account for a potential simultaneous use of the two approaches to CPA[5]. We therefore calculated two further measures of firms' CPA that reflect firms' use of transactional and relational approach to CPA separately. To do so, we carried out a confirmatory factor analysis on the four items suggested by Hillman (2003) and Hillman and Wan (2005). As expected, this analysis showed that the four items fell into two separate components reflecting transactional and relational approach, respectively. The factor analysis allowed us to use the factor scores for the two different approaches as dependent variable. Overall, we thus use three dependent variables to measure (1) firms' *dominant approach* to CPA; (2) the extent to which a firm uses a *transactional approach* (α = .61); and (3) the extent to which a firm used a *relational approach* (α = .88).

To measure *resource criticality* as our first *independent* variable we asked survey participants to assess their firm's dependence on seven tangible and intangible resources in the local environment, as suggested by Srivastava, Fahey, and Christensen (2001). We used a five-point *Likert*-type scale (α = .79, see appendix for items) and calculated the overall criticality by taking the average dependence on the seven resources.

We measured foreign firms' *product diversification* within the host country using secondary data obtained from the companies' websites or annual reports (if the company was listed). In order to measure product diversification, the companies that responded to the survey were divided into publicly *listed* and *unlisted* companies. For the listed companies, we followed the approach used by Sukpanich and Rugman (2007) and Tallman and Li (1996) and used the number of products offered by the company in different product groups. If the share of the respective product/service exceeded 5% of total firm sales in India it was included in our count measure of diversification. For unlisted firms we counted the number of products and services offered by the company in different segments from secondary company databases and firms' local websites

[5] We would like to thank one of the anonymous reviewers for highlighting this possibility and suggesting the use of an additional measure of firms' approach to CPA.

without applying the 5% threshold applied to listed firms, in line with the approach used by Sadrieh and Annavarjula (2005).

To measure foreign firms' *inter-subsidiary integration*, we used the constructs suggested by O'Donnell (2000). We used four items to measure the extent to which other foreign subsidiaries and headquarters influence the outcomes of the subsidiary using a 5-point *Likert*-type scale (α = .71, see appendix for items).

In order to measure foreign firms' *business ties* we used items suggested in previous studies by Sheng et al. (2011) and Peng and Luo (2000). We asked respondents to assess their firm's connections with (1) supplier firms, (2) customer firms, (3) marketing based collaborators, and (4) technological collaborators (α = .64, see appendix). One item (ties with competitors) with low item-to-total correlation was eliminated to improve overall internal consistency. We suggest that this is a reliable measure given the numerous past studies that have used this measure (Sheng et al., 2011).

We controlled for various factors that have been shown to affect MNEs' political strategy choice in host countries. These included *subsidiary size*, measured by the number of employees (Hillman, 2003; Hillman & Wan, 2005); *subsidiary age*, measured by the number of years the subsidiary has been operating in India (Hillman, 2003; Hillman & Wan, 2005); *industry type*, measured by asking survey participants about their industry sector, and then coding into a dummy—manufacturing (0) and services (1); *degree of foreign ownership*, measured by the percentage of assets owned by foreign parent or partners in the Indian subsidiary (Xu, Pan, Wu, & Yim, 2006). Given the importance that prior research has attributed to institutional factors in affecting firms' choice of approach to CPA we control for two institutional-level factors. First, research has argued that the level of corporatism in foreign firms' host countries affect their choice of CPA (Hillman, 2003; Hillman & Wan, 2005). As we focus on one particular host country in our study, this was not possible. Yet, based on the assumption that firms' home-country imprinting (Kogut, 1993; Kostova & Zaheer, 1999) may affect firms' choice of CPA overseas, we control for the level of corporatism in firms' home country. Second, we control for the institutional distance between India and the foreign firms' home country. In line with past research, this was measured using differences in the scores for government effectiveness, political stability, regulatory quality, rule of law and control of corruption, obtained from World Bank's Governance index (Mondejar & Zhao, 2013). See Table 3 for the definitions of the variables and the data sources we used to measure them.

To avoid a common method bias, we used several *ex ante* measures during the design of our questionnaire (Chang, van Witteloostuijn, & Eden, 2010). First, in addition to the data collected through our survey, we obtained data from secondary sources for one of our predictor variables and for several of our control variables (see Table 2). Second, we adjusted the questionnaire items to use terms that were familiar to Indian managers in order to minimise ambiguity. As suggested by Andrews (1984) we also provided different scale endpoints for some variables, and also used 'don't know' and 'prefer not to answer' options for each item. Third, during questionnaire administration, we assured the respondents confidentiality and anonymity, and highlighted that there are no right and wrong answers. We also used two ex post approaches to check for a potential common method bias. First, we used Harman's single factor test (Podsakoff, Mackenzie, & Lee, 2003) which did not indicate a common method bias. Second, following Lindell and Whitney (2001), we also used the partial correlation procedure using a *marker* variable (managerial autonomy) that was not related to either resource dependence or approaches to CPA and could be used to measure the extent of common method bias. This variable was not significantly associated with any of our variables, and the theoretical relationships among the variables of interest were not affected, supporting the absence of a common method bias. We also checked for a potential non-response bias by comparing the responses of early respondents (first 30 responses) and late respondents (last 30 responses), in line with past research that has used this test (e.g. Armstrong & Overton, 1977; Keillor & Hult, 2004). We found that there were no significant differences between the responses of early and late respondents, thus indicating that there was no bias.

Results

Table 4 provides the means, standard deviations (SD) and correlations. Although there were some correlations among our independent variables (see Table 4), these were very low and multicollinearity was thus not considered to be an issue. The mean and SD for the dependent variables shows that firms using both transactional and relational approaches were equally represented. Similarly, the means and SDs of predictor variables indicates good representation of firms with both high and low levels of resource criticality, diversification, inter-subsidiary integration and business ties.

For our dichotomous dependent variable (*dominant approach*), we used logistic regression to test our hypotheses, in line with Hillman (2003) and Hillman and Wan (2005). For our two continuous dependent variables, i.e. *transactional approach* and *relational approach*, we used linear multiple regression analyses to test our hypotheses. Table 5 shows the regression results.

Model 1 shows the baseline model using the *dominant approach* (transactional = 1, relational = 0) as dependent variable, and with the control variables only. Among the control variables, only industry type appears to have a statistically significant and negative effect on firms' choice of approach to CPA ($p < .05$). In Model 2 we add the predictor variables to the baseline model for

Table 3
Variable definitions and data sources.

Variable	Definition	Data source
Political approach	Transactional: short-term or one-off exchange with government policymakers Relational: long-term or on-going exchange with government policymakers	Survey
Resource criticality	Degree to which (a set of) resources are important for survival	Survey
Diversification	Count of products/services offered in a different industry	Company websites
Inter-subsidiary integration	Degree to which activities/outcomes of the subsidiary are influenced by other subsidiaries or headquarters	Survey
Business ties	Degree to which informal managerial linkages with other associated businesses have been formed	Survey
Subsidiary size	Number of Employees	Survey
Subsidiary age	Number of years of operation in India	Survey
Industry type	Manufacturing (0) vs. Services (1)	Survey
Foreign ownership	Percentage of the subsidiary owned by foreign parent company	Survey
Corporatism (home country)	Degree to which legislative power in the firm's home country is centralised	Siaroff (1999)
Institutional distance	Formal difference between World Bank Governance Indices on government effectiveness, political stability, regulatory quality, rule of law and control of corruption between home and host country	World Bank

Table 4
Correlations.

	Means	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Relational approach	3.0849	.969	1												
Transactional approach	3.1653	.886	−.396**	1											
Dominant approach	.577	.496	−.478**	.826**	1										
Subsidiary size	1781.53	6467.05	.191	−.216*	−.238*	1									
Subsidiary age	18.48	19.85	.237*	−.071	−.111	.167	1								
Foreign ownership	73.41	39.09	−.121	.172	.010	.036	−.132	1							
Industry type	.61	.49	−.095	−.066	−.148	.176	−.050	.109	1						
Home Country corporatism	2.56	1.44	.031	.190	.213*	−.087	.007	.124	−.103	1					
Institutional distance	1.59	.59	−.071	.116	.067	.071	−.025	.400**	.115	.757**	1				
Resource criticality	3.14	.87	.221*	−.249*	−.301**	−.018	.025	−.114	−.257**	−.182	−.137	1			
Product diversification	10.11	7.23	−.119	.178	.209*	−.027	−.036	.200*	.007	.072	.129	−.044	1		
Inter-subsidiary integration	3.13	.65	−.038	.264*	.231*	−.176	−.046	.138	.112	.167	.208*	.011	.161	1	
Business ties	3.84	.58	.389**	−.261*	−.305**	.204*	.071	−.027	−.210*	.077	.028	.172	.016	−.033	1

+ $p < .1$.
* $p < .05$.
** $p < .01$.
$N = 105$.

Table 5
Regression results.

	Dominant approach (transactional = 1; relational = 0)		Transactional approach		Relational approach	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Independent variables						
Resource criticality		−.910*		−.197+		.203*
Product diversification		.103*		.011		−.013
Inter-subsidiary integration		.984*		.309*		.029
Business ties		−1.642**		−.276		.499**
Control variables						
Subsidiary size	.000*	.000	−.000	−.000	.000+	.000
Subsidiary age	.008	.016	.001	.002	.010+	.009*
Industry type	−.233*	−1.030*	−.039	−.273	−.150	.088
Foreign ownership	.004	−.006	.004	.003	−.001	.000
Home-country corporatism	.530	.519	.228*	.191+	.154	.179+
Institutional distance	−.740	−.816	−.330	−.342	−.336	−.374
Adjusted R-square			.051	.123	.056	.161
−2 log likelihood	101.627	72.98				
Nagelkerke R square	.244	.527				

+ $p < .1$.
* $p < .05$.
** $p < .01$.
$N = 105$.

dominant approach as dependent variable. The results show a significant negative relationship ($p < .05$) between resource criticality and transactional approach in line with our first hypothesis. Our second hypothesis which suggested a positive association between product diversification and firms' adoption of a transactional approach is also supported in this model. The respective coefficient in Model 2 is positive and statistically significant ($p < .05$). Hypothesis 3 suggested a positive association between inter-subsidiary integration and firms' adoption of a transactional approach. Model 2 shows that there is significant positive association ($p < .05$) between these variables thus empirical support for this hypothesis as well. Finally, our fourth hypothesis suggested a negative relationship between business ties and firms' choice of transactional approach to CPA. This hypothesis is also supported by a statistically significant negative relationship ($p < .01$) between business ties and relational approach, supporting this hypothesis.

In models 3 to 6, we repeat the above process by taking the individual approaches to CPA as dependent variables. A comparison of the results of model 2 (with the dominant approach as dependent variable) with the results of models 4 and 6 (with individual approaches taken as dependent variables) shows consistent results for Hypothesis 1, which is supported in all the 3 models. Although model 2 supports our Hypothesis 2 regarding the link between product diversification and CPA approach, both models 4 and 6 do not support it. Thus Hypothesis 2 is only partly supported. Regarding Hypothesis 3 on the link between inter-subsidiary integration and CPA approach, the results of model 2 are consistent with the results of model 4; and for Hypothesis 4 on the link between business ties and CPA approach, the results of model 2 are consistent with the results of model 6. Thus besides our Hypothesis 2, our comparative results provide consistent support for all of the remaining three hypotheses.

Since 13 out of our 105 survey respondents did not provide us with their home country details, the information that we could obtain from secondary sources for two of our variables—institutional distance and home country corporatism was limited to 92 cases. Since our sample size was small, and given that these were control variables, we decided to use the mean values for the missing cases, rather than dropping these cases in our original models (1–6). However, running our models with 92 cases did not affect our results in any significant way (see Table 6, models 7–12).

We also tested for the possibility of reverse causality using the technique suggested by Davidson and MacKinnon (1993) for an augmented Durbin–Wu–Hausman (DWH) test (see Table 7). Specifically, we generated the residuals from our regressions in

Table 6
Regression results with $N = 92$.

	Dominant approach (transactional = 1; relational = 0)		Transactional approach		Relational approach	
	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Independent variables						
Resource criticality		−.737*		−.188+		.244*
Product diversification		.097*		.011		−.011
Inter-subsidiary integration		.908*		.299*		.022
Business ties		−1.550**		−.277		.460*
Control variables						
Subsidiary size	.000*	.000	−.000	−.000	.000	.000
Subsidiary age	.003	.010	.002	.002	.011*	.010*
Industry type	−.284	−.911	−.064	−.306	−.150	.120
Foreign ownership	.004	−.004	.003	.002	−.002	.000
Home-country corporatism	.526+	.468	.182+	.135	.160	.204*
Institutional distance	−.470	−.302	−.220	−.186	−.449	−.552+
Adjusted R-square			.036	.097	.059	.166
−2 log likelihood	96.816	71.997				
Nagelkerke *R* square	.253	.507				

+ $p < .1$.
* $p < .05$.
** $p < .01$.
$N = 92$.

Table 7
Reverse causality results—Augmented Durbin–Wu–Hausman (DWH) test.

	Resource criticality	Resource criticality	Resource criticality
Logit residuals from model 2	.000 ($p = .989$)		
Unstandardised residuals from model 4		.000 ($p = 1.000$)	
Unstandardised residuals from model 6			.000 ($p = 1.000$)
Product diversification	−.008	−.009	−.009
Inter-subsidiary integration	.069	.047	.047
Business ties	.109	.097	.097
Subsidiary size	−.000	−.000	−.000
Subsidiary age	−.001	.000	.000
Industry type	−.635**	−.690**	−.690**
Foreign ownership	−.004	−.004	−.004
Home-country corporatism	−.253*	−.252*	−.252*
Institutional distance	.389	.469	.469
Adjusted *R*-square	.074	.083	.083

* $p < .05$.
** $p < .01$.
$N = 105$.

models 2, 4 and 6 to eliminate the common variability between resource criticality and CPA approaches. We then tested the effects of these residuals on resource criticality. If the effect of the residuals had been significant our models would not have been consistent, i.e. suffered from reverse causality. The results of this tests presented in Table 7 show that reverse causality was not an issue in our models[6].

Discussion

Our empirical results provide support for all of our hypotheses regarding the role of various determinants of foreign firms' choice of approach to CPA. Our findings support the existence of a negative association between *resource criticality* and foreign firms' adoption of a *transactional* approach to CPA, as well as a positive association between resource criticality and *relational* approach in emerging economies thus supporting our Hypothesis 1. This shows that foreign firms that critically depend on locally available resources in emerging economies are less likely to use a transactional approach and prefer to adopt a relational approach to CPA. By including a variety of resources, this study enhances the findings of previous studies which have already highlighted the criticality of locally available resources on the political activities of firms (Meznar & Nigh, 1995). Our findings confirm that a relational approach is a means to reduce the uncertainty of access to critical resources that MNEs may be highly dependent on.

Second, we find that the degree to which firms have diversified their product range in a country plays an important role in foreign firms' choice of approach to CPA in this country. We argued that foreign firms' *product diversification* within a host country reduces its dependence on particular critical local resources, and thus increases their likelihood of adopting a transactional approach to CPA. Our empirical findings partially support our Hypothesis 2 on the relationship between unrelated product diversification and MNEs choice of approach to CPA. The results of our analysis using the dominant approach to CPA suggested by Hillman and Wan (2005) are in line with our hypothesis, but also with past suggestions on the effect of firms' (overall, i.e. not host-country specific) product diversification on their choice of CPA approach (Hillman & Hitt, 1999). They are also in line with Zhilong and Xinming (2007), who found that in China, local firms reduced their engagement in political ties (relational approach) through product diversification. However, once the two approaches to CPA are used as separate dependent variables, product diversification has no significant effect. One possible explanation for this lack of clear support for this hypothesis may lie in the fact that rather than

[6] We would like to thank one of the anonymous reviewers for raising this issue.

diluting foreign firms' dependence across multiple local actors, product diversification may in fact increase their dependence on local actors if the resources that they depend on for their operations in multiple, unrelated industries are controlled by the same or a small number of external actors[7]. The positive and negative effects of unrelated firm diversification on external dependence and thus on the relative importance of a transactional versus a relational approach to CPA may thus cancel each other out.

Third, we find support for our Hypothesis 3 that *inter-subsidiary integration* increases firms' tendency to use a transactional approach to CPA. We argued that inter-subsidiary integration allows subsidiaries to draw on resources from other subsidiaries of the firm and thus reduce its dependence on resources held in the local environment. Given the resulting decrease in the subsidiary's need to manage access to local resources, we expected subsidiaries to have little incentives to build strong relationships with the host government through adopting a relational approach to CPA. High levels of inter-subsidiary integration may also indicate a need for the firm to coordinate political activities across its network of operations. Developing strong and idiosyncratic relationships with host country governments of different host countries, i.e. a relational approach, is likely to be detrimental to such a coordination of CPA across multiple countries. In the context of highly integrated subsidiaries we also expected a transactional approach to CPA to provide firms with the flexibility needed to align their host country political activities with their overall organisational norms and values (O'Donnell, 2000).

Fourth, in Hypothesis 4 we expected that foreign firms with local *business ties* are more likely to also use a relational approach to CPA, rather than adopting a transactional approach. Existing research has argued that firms operating in emerging economies use political ties as well as business ties to improve their performance (Li et al., 2008a,b; Luo, 2001; Sheng et al., 2011; You & Du, 2012). Due to differences in the resources controlled by host governments and local businesses, we suggested that business ties can only partly or not at all substitute for the constraint absorption of political ties. As a result, we did not expect the existence of business ties to lead to a low-commitment, transactional approach to CPA. Instead, we argued that due to path dependence and learning effects, business and political ties may reinforce one another in the context of emerging economies. The respective hypothesis was supported. Due to a greater conflation between business and political networks in emerging economies (Rizopoulos & Sergakis, 2010) we suggest that ties with local businesses provide foreign firms with not only relational skills required to build political ties (relational approach), but also make them aware of the risks/opportunities associated with on-going interactions with specific political actors that are of concern to their business. Thus, by enriching RDT logic with the notions of path dependence and learning we shed new light on the role of business ties as a determinant of foreign firms' CPA approach in emerging economies.

From among our control variables, only the industry dummy is statistically significant indicating that firms operating in the services sector are less likely to adopt a transactional approach. This may be due to the generally greater level of regulation of services sectors which requires firms to use a more long-term, relational approach.

While research has suggested that firms need to deal with institutional differences that could affect the extent to which foreign firms may involve in government-relationship building (Mondejar & Zhao, 2013), our findings on the effects of the institutional distance between the foreign firms' home countries and host country indicate no significant association between institutional distance and foreign firms' approach to CPA in India. Our findings do not show an effect of the level of corporatism in foreign firms' home-country on their choice of CPA in host countries either. Although this finding is not directly comparable with prior research suggesting and finding support for an effect of the level of corporatism in *host countries* (Hillman & Hitt, 1999) on the CPA approach chosen by foreign firms (Hillman, 2003), it indicates that home-country imprinting does not affect foreign firms' choice of CPA when operating overseas.

Conclusion

Our study was motivated by the question as to which factors make foreign firms more or less likely to adopt a transactional approach to CPA in emerging economies, rather than a relational approach that most research on CPA in emerging economies has focused on. Using RDT, we analysed the role of four factors that foreign firms' dependence on local resources and thus their choice of approach to CPA as a mechanism to ensure continued access to critical resources that may be constrained by powerful actors in the political environment. More specifically, we investigate how resource criticality, product diversification, international inter-subsidiary integration and business ties affect foreign firms' choice of approach to CPA. In doing so, we contribute to the growing literature on firms' choice of CPA by identifying the factors that prevent firms from adopting a transactional approach to CPA in emerging countries despite the drawbacks of a relational approach and institutional changes that make a transactional approach more feasible.

Our analysis also contributes to the discussion of MNE-host government relationships which has had a long tradition in International Business (IB) research. Since Kobrin (1979, 1981) highlighted the importance of political risk for MNEs, scholars have continued to investigate the MNE-host government relationship and focussed on issues, such as the distribution in bargaining power between MNEs and host governments (Eden & Molot, 2002; Fagre & Wells, 1982; Ramamurti, 2001; Vernon, 1991). The management of the MNE-host government relationship has thus emerged as a central topic in IB research. Recent research in this area has provided differentiated analyses of firms' overseas political activities based on Hillman and Hitt's (1999) 'decision tree' model of CPA (Hillman & Hitt, 1999; Hillman & Wan, 2005). We contribute to these on-going efforts to test the concepts developed mainly in a US context in non-US contexts. Although we focus only on the first stage of Hillman and Hitt's (1999) decision-tree model, investigating the factors that influence the decisions of foreign firms in emerging economies with regard to the second and third stage of Hillman and Hitt's (1999) decision-tree model was beyond the scope of the current study, but would certainly be a worthwhile extension. We also contribute to the on-going research on the continuing use of informal *ties* with political actors in emerging economies versus the use of more formal mechanisms common in developed countries (Luo, 2001, 2006; Sun et al., 2012).

By using RDT as theoretical anchor we also respond to the call for a better integration of the insights provided by this theory into the literature on CPA (Hillman et al., 2009). We extend previous research on political activities of firms anchored in RDT (e.g. Dieleman & Boddewyn, 2012; Meznar & Nigh, 1995). Although several other theories, in particular, the institutional theory and the resource based views have provided complementary explanations of this choice, we suggest that with its focus on external dependency, RDT allows us to discuss influences arising at the firm as well as country level in as far as they affect this external dependency and thus a firm's choice of CPA. We also open up further possibilities for the future development of RDT by highlighting the notions of path dependence (Pierson, 2000) and learning in the context of absorbing external constraints. These

[7] We would like to thank one of the anonymous reviewers for pointing out this possibility.

concepts provide interesting starting points for theoretical extensions of RDT, in particular with regard to the choice of mechanisms to manage external constraints.

There are a number of limitations to this study which open new alleys for further research on the topic of CPA in emerging economies. A first limitation relates to our measures. Although our measures have been considered as valid measures by and used in prior research, several of these measures could be improved. In particular, the measure for approach to CPA suggested by Hillman (2003) and Hillman and Wan (2005) views a firm's "limited political involvement" as an indicator for a transactional approach, while this may also indicate a lack of any approach chosen by the firm. We suggest there is a need for measures of CPA that do not conflate firms' decision on whether or not to engage in CPA with their decision to adopt a particular approach to CPA. More refined measures of CPA should also be made comparable to measures of business ties to allow for an analysis of the degree to which such relationships are substitutive or complementary. Second, we investigated the role of product diversification in a particular host-country in explaining foreign firms' choice of approach to CPA. Given that prior research has stressed the role of firms' overall product diversification as well as their geographical diversification (Hillman, 2003), future research should investigate the effect that such corporate level factors have on the choice of CPA approach in one or more of the firm's host countries. Third, our model did not account for potential mediating or moderating effects. The mechanisms that lead firms to adopt particular approaches to CPA in emerging economies may be more complex. We suggest that business ties may play a more complex role that may be a worthwhile area for future research, such as it may moderate the relationship between resource dependence and approaches to CPA. Although we took various measures to avoid a common method bias, future research developing and testing such complex models would also reduce concerns regarding a common method bias (Chang et al., 2010). Fourth, while we found no evidence for reverse causality in our models, endogeneity may still be an issue in as far as firms' decision to accept critical dependence on certain local resources in emerging economies may be related to their choice of, or success with a particular approach to CPA. Future research may look at reverse relationships[8], such as whether firms' political actions (including approaches to CPA) can be used to create 'favourable external environments' (Pfeffer & Salancik, 1978). Finally, the heterogeneity of the political environments across emerging economies limits the generalizability of our findings regarding the relationship between resource criticality and transactional and relational CPA in emerging economies to political environments that are comparable to India's political environment. Future research that includes other emerging economies is thus needed to clarify the applicability of our findings across a wider range of emerging economies. Despite these limitations, we suggest that our study enhances our understanding of the foreign firms' choice of approach to CPA and addresses the growing need for understanding the intersection between research on firms' international operations and their corporate political activities.

Appendix A. Measurement constructs

Political approach (Hillman, 2003; Hillman & Wan, 2005)

To what extent do you disagree/agree with the following statements, with regard to dealing with government officials for issues affecting your organisation's operations? (Issues for instance—new tax regulations, subsidies, ownership policies, etc.) (1: Strongly disagree, up to5: Strongly agree)

[8] We like to thank one the anonymous reviewers for pointing out this issue.

1. We tend to wait until regulatory issues affecting our business arise before developing plans and actions in an attempt to influence these issues (transactional).
2. We have maintained good personal relationships with officials in various levels of government, so that when regulatory issues arise that may affect our operations in this country, the contacts are already in place to influence these issues (relational).
3. We have developed good connections with officials in regulatory and supporting organisations such as tax bureaus, state banks and commercial administration bureaus (relational).
4. Relatively few public policy issues arise during any given year that our subsidiary is interested in, so we tend to have limited political involvement in this country (transactional).

Resource criticality (Srivastava et al., 2001) (α = .79)

'The following questions are about the importance of various resources available in India to your organisation' How important are the following resources for the day-to-day operations of your business? (1: Not at all important, up to5: Very important)

1. Land (e.g. for construction or agri-businesses).
2. Up-to-date production machinery/equipment.
3. Unskilled workers (low cost, minimum wage labour).
4. Raw materials (natural resources).
5. Specifically owned patented technology/technological know-how.
6. Highly Skilled employees (engineers, scientists, doctors, accountants, consultants, etc.).
7. Reputation of your company (e.g. product brand names or company name).

Inter-subsidiary integration (O'Donnell, 2000) (α = .71)

To what extent do you disagree/agree with the following statements (1: Strongly disagree, up to5: Strongly agree)

1. The activities of headquarters influence our outcomes.
2. Our activities influence the outcomes of headquarters.
3. The activities of other foreign subsidiaries influence our outcomes.
4. Our activities influence the outcomes of other foreign subsidiaries.

Business ties (Sheng et al., 2011) (α = .64)

To what extent do you disagree/agree with the following statement? (1: Strongly disagree, up to5: Strongly agree): "We have built good connections with managers at —

1. Supplier firms in India.
2. Customer firms in India.
3. Marketing based collaborators in India (E.g. distributors, advertisers etc.).
4. Technological collaborators in India (E.g. Information Systems/Web service providers etc.).

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